

Alpina Remuneration Policy (December 2020)

1 List of abbreviations

Insofar as the context does not require any other interpretation, means

AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
BoD	Board of Directors
CSSF Financier	Commission de Surveillance du Secteur

2 Definitions

The following indicative definitions, which do not override equivalent definitions in national law, have been developed only for the purposes of this Policy.

Identified Staff	categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls into the remuneration bracket of senior management and risk takers, whose professional activities have a material impact on the management company’s risk profile or the risk profiles of the UCITS that it manages and categories of staff of the entity(ies) to which investment management activities have been delegated by the management company, whose professional activities have a material impact on the risk profiles of the UCITS that the management company manages
Remuneration, fixed	the basic monthly gross salary and benefits; it remunerates role, responsibility and expertise
Remuneration, variable	also referred to as “bonus”; remunerates personal and collective achievements; it can be paid to the employee, when and if the financial result of the company and the work performance of the employee allow so

3 Applicable regulations and other relevant documents

Directive	<p>Directive 2011/61/EU on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (known as “AIFMD”); and</p> <p>Directive 2014/91/EU, amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (known as “UCITS V”);</p>
Luxembourg Law undertakings for	<p>Luxembourg law of 17 December 2010 on collective investment (the “UCI Law”); and</p> <p>Luxembourg law of 12 July 2013 on alternative investment fund managers (the “AIFM Law”).</p>

4 Remuneration Rules

UCITS V is the latest iteration of Directives governing UCITS funds and management companies. European Economic Area (“EEA”) Member States were required to apply UCITS V on 18 March 2016.

UCITS V contains rules on the manner in which staff are remunerated, which are designed to promote sound and effective risk management. This Policy focuses on the remuneration rules in this Directive on asset managers. Remuneration rules were introduced for alternative fund managers in 2013 under the Alternative Investment Fund Managers Directive (“AIFMD”). AIFMD provides the “blueprint” for the rules in UCITS V for fund managers regulated under the UCITS Directive.

Alpina Fund Management S.A. operates as so called “Super-ManCo”, which is understood as a management company authorized to manage UCITS and alternative funds, both, the UCITS as well as the AIFMD remuneration rules are applicable. Nevertheless, the UCITS V remuneration rules are similar to the rules under the AIFMD, i.e. no substantial deviation was identified.

Taking into consideration the allocation of assets managed by Alpina Fund Management S.A. under UCITS or AIFMD, Alpina Fund Management S.A. has decided to follow the UCITS V remuneration rules. However, the Management Company remains subject to both legislations, UCITS and AIFMD.

4.1 Remuneration rules under UCITS V

UCITS V introduced remuneration rules that are similar to the rules for AIFMs under the AIFMD, requiring UCITS management companies to put in place remuneration policies that are consistent with sound risk management.¹

The following is a summary of the UCITS V remuneration principles², requirements *italicized* may have been dis-applied by the Management Company (see section regarding proportionality principle):

- the manager must have a remuneration policy that is consistent with and promotes sound and effective risk management and does not encourage risk-taking that is inconsistent with the UCITS' risk profiles or rules;
- the remuneration policy should be in line with the business strategy, objectives, values and interests of the UCITS, the manager and the investors in the UCITS, and include measures to avoid conflicts of interest;
- the management body of the manager should adopt the remuneration policy and perform at least an annual review (according to UCITS V, this can only be undertaken by members of the management body who do not perform any executive functions and who have expertise in risk management and remuneration);
- the compliance function should, at least annually, review implementation of the remuneration policy;
- staff in control functions (such as senior legal and compliance staff) should be compensated in accordance with their functions' objectives, independently of the performance of the business areas that they control;
- *a remuneration committee should oversee remuneration of senior officers in risk management and compliance;*
- performance-related remuneration must be based on a combination of the assessment of the performance of the individual and of the business unit or fund concerned and the overall results of the UCITS manager, taking into account financial and non-financial criteria;
- performance must be assessed in a multi-year framework (appropriate to investors' recommended holding period in the fund), so that the assessment is based on longer-term performance of the fund;
- guaranteed variable remuneration must only be paid in the first year following a new hire and even then only in exceptional circumstances;
- fixed and variable remuneration components must be balanced appropriately, and the manager must have the option of paying no variable remuneration;
- payments for early termination reflect the performance achieved over time and are designed in a way that does not reward failure;
- variable remuneration must be put in place with an adjustment mechanism that integrates all types of current and future risks;
- *a substantial portion (at least 50%) of the variable remuneration component must be paid in non-cash instruments, such as units of the UCITS concerned, equivalent ownership instruments or other instruments with equally effective incentives. Where the management of UCITS funds accounts for less than 50% of the total portfolio managed by the manager, the 50% minimum does not apply, but the obligation to pay a substantial portion of variable remuneration in non-cash instruments remains. This*

¹ Articles 14a and 14b of Directive 2009/65/EU, as amended by UCITS V.

² Article 14b of Directive 2009/65/EU, as amended by UCITS V.

requirement is subject to the fund's legal structure, its fund rules or instruments of incorporation. In practice, managers are likely to take a pragmatic approach to satisfy this requirement;

- *pay-out of between 40% and 60% of variable remuneration must be deferred over a period of three to five years, subject to the requirements that the deferral period is (1) appropriate in the view of investors' holding period, and (2) correctly aligned with the nature of the risk of the fund in question;*
- variable remuneration (including the deferred portion) must only be paid if it is sustainable according to the manager's financial situation as a whole and the individual's and fund's performance, and provide for variable remuneration to be reduced where either the manager or the fund concerned performs badly, or where the individual performs a "bad act" (*including claw-back of remuneration already paid*);
- discretionary pension benefits must be held in non-cash instruments for five years if a staff member leaves before retirement. Following retirement, the manager must also pay discretionary benefits in the form of non-cash instruments which must be subject to a five-year retention period;
- staff may not use personal hedging strategies or insurance to undermine the risk alignment in the remuneration arrangements; and
- variable remuneration may not be paid through vehicles or methods that facilitate avoidance of the requirements in UCITS V.

The remuneration provisions apply to senior management, risk takers, control functions and any other staff member whose remuneration falls in the remuneration bracket of senior management, and other risk takers whose professional activities have a material impact on the risk profile of the Management Company or UCITS.³

4.2 Proportionality principle

In AIFMD and UCITS V, remuneration principles are subject to the proportionality principle, which is that the rules must be applied in a manner appropriate to the size of the firm and the types of activities which it undertakes. Article 14(b) (1) of the UCITS Directive (as amended by the UCITS V Directive) states that UCITS management companies must comply with the rules "in a way and to the extent that is appropriate to their size, internal organization and nature, scope and complexity of their activities"⁴ – noting at the same time that UCITS management companies must "apply all the principles governing remuneration policies."⁵

Therefore, a key element of the UCITS Remuneration Guidelines (as well as the other aforementioned guidelines) relates to proportionality and, in particular, whether proportionality can lead to a situation in which the specific requirements on the pay-out process (i.e. the requirements on variable remuneration in instruments, retention, deferral and ex-post incorporation of risk for variable remuneration)⁶ set out in the Directives may not have to be applied.

Proportionality may lead "on an exceptional basis" to the dis-application of some requirements, if this fits with the risk profile, risk appetite and strategy of the management company and the UCITS.

³ Article 14a (3) of Directive 2009/65/EU, as amended by UCITS V.

⁴ Article 14b (1) of Directive 2009/65/EU, as amended by UCITS V.

⁵ Recital 3 of UCITS V.

⁶ Article 14b (1) (m), (n) and (o) of the UCITS Directive and Annex II, paragraph 1, letters (m), (n) and (o) of the AIFMD.

4.2.1 The Management Company’s approach to the Proportionality principle

Following the principle of proportionality, Alpina Fund Management S.A. has decided to dis-apply the following requirements:

- the requirements on the pay-out process, namely the requirements on
 - i. variable remuneration in instruments;
 - ii. retention;
 - iii. deferral and
 - iv. ex-post incorporation of risk for variable remuneration; and
- the requirement to establish a remuneration committee.

In applying the proportionality principle, the types of factors that the Management Company has taken into account include:

- the Management Company’s total assets under management (AuM);
- the percentage of UCITS assets under management relative to other fund assets under management;
- the average ratio between its fixed and variable remuneration paid to staff; and
- the funds’ strategies, the respective risk appetite and risk approach (“complexity of investment strategies”).

Alpina Fund Management S.A. is not significant in terms of its size or the size of the funds managed, its internal organization and nature, scope and complexity of its activities (i.e. UCITS and AIF).

assets under management	approximately EUR 650m
number of employees on payroll	5
their cumulated total remuneration does not exceed	EUR 750,000 per year
average ratio between fixed and variable remuneration	less than 1 : 0.50
ratio of UCITS assets relative to other fund assets	> 100:1
<i>(as of 31 December 2020)</i>	

Non-complexity of investment strategies: The funds managed by the Management Company do not pursue complex investment strategies. These are securities funds and funds of funds. This also applies to the small portion that does not fall under the UCITS regime. Some sub-funds use forward exchange contracts to hedge currency risks. No sub-fund uses derivatives for speculative purposes, so there is no high leverage, including through other potentially suitable instruments (“unleveraged assets”). Securities financing transactions, e.g. securities lending transactions and (reverse) repurchase agreements, are not carried out. Even if a total loss cannot be excluded, the risk appetite of the sub-funds is therefore limited. This is also reflected in the selection of the method for measuring global risk, all sub-funds apply the commitment approach. Upon request, investors can obtain additional information on the risk management process from the Management Company.

In any case, the Company ensures that the fixed and variable components of the total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration, including the possibility to pay no variable remuneration component.

4.3 Role of the Board of Directors and of the Senior Management

UCITS V requires a UCITS Manager's non-executive board members to:

- (i) adopt the remuneration policy;
- (ii) adopt and review at least annually the general principles of the remuneration policy;
and
- (iii) take responsibility for and oversee their implementation.

The Board of Directors considers that its members have appropriate expertise in risk management and remuneration to fulfil its responsibility for the adoption of this remuneration Policy and practices that do not encourage risk taking that is inconsistent either with the risk profiles, rules or instruments of incorporation of the UCITS funds and AIFs that the Management Company manages or with the Management Companies' duty to act in the best interest of those funds. Where a periodic review reveals that the remuneration system does not operate as intended or prescribed, the Board of Directors shall ensure that a timely remedial plan is put in place.

The Board of Directors recognises the important role played by sound risk management in protecting its stakeholders. Moreover, the Board acknowledges that inappropriate remuneration structures could, in certain circumstances, result in situations whereby individuals assume more risk on the relevant entity's behalf than they would have done had they not been remunerated in this way.

Therefore, the Board of Directors will budget the corresponding expenses ("personnel costs") in a manner that is conducive to the effective implementation of this Policy.

Nevertheless, the Board may deviate from this Policy. However, in such a case, the relevant payments must comply with the relevant regulations and guidelines (to the extent applicable) and in addition, the Board of Directors shall approve any payments made.

The senior management will act within the aforementioned budget. Any additional personnel expenses are discussed with the Board of Directors, if necessary.

The Compliance department ensures that this Policy has been reviewed by the Board of Directors at least annually, and that all related principles and procedures have been implemented accordingly. The Compliance department oversees the fair and consistent application of this Policy within the Management Company.

4.4 Determination of Identified Staff

The list of Identified Staff is approved by the Board of Directors and is reviewed once a year. It is approved on the basis of criteria laid down in the ESMA Guidelines on sound remuneration policies under the UCITS Directive (ESMA/2016/575).

4.5 Variable remuneration

4.5.1 Malus and clawback

Malus means the adjustment of an award of variable remuneration, such as a performance-linked bonus or share award, before it has vested. Clawback means the recovery of variable remuneration which has already been paid.

From a practical point of view, it is easier for firms to apply malus since that involves an adjustment being made before any money or shares are paid over to the employee. Clawback is harder to apply in practice since it involves recouping money or shares that have already been paid or transferred to the employee.

The ESMA final guidelines on sound remuneration policies under UCITS V state that any variable remuneration award shall be subject to malus and clawback provisions.

Alpina Fund Management S.A. believes that the Company does not pay any variable remunerations that may lead to excessive risk taking. Furthermore, the Management Company reserves the right to pay no variable remuneration component.

When appropriate, the Management Company will adjust an award of variable remuneration, i.e. the Management Company will apply a malus.

Regarding clawbacks, it remains unclear how tax and national insurance contributions paid can be reimbursed, e.g. tax bills over a period of three years would need to be appealed against. As clawbacks shall fall under the sole discretion of the Management Company, the Management Company may face compensation claims, litigation or other legal action.

Taking into consideration these issues, the Management Company deems it appropriate to apply a malus instead of a clawback, if possible.

4.5.2 Performance assessment

When the remuneration of the employee is performance related, the remuneration is calculated in order to reflect the performance of the employee, the results of the business unit and the overall result of the Management Company.

The employee can be evaluated on the basis of financial and non-financial criteria (e.g. unethical or non-compliant behaviours). The appropriate mix of both criteria can vary depending on the tasks and responsibilities of the employee.

When assessing the performance of the employee the Management Company applies an approach based on a multi-year perspective. The assessment takes into account the long term performance of the employee.

For staff members engaged in control processes and who are independent from the business units they oversee, the assessment is performed in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control (i.e. risk management, audit, and compliance functions).

The remuneration of senior officers in the risk management and compliance functions is directly overseen by the Board of Directors.

4.5.3 Award process

The Management Company translates the performance assessment into the variable remuneration component for each employee. Risks are taken into account when the amount is determined by the Management Company.

In case subdued financial performance of the Management Company or of the funds occurs, the variable remuneration of the employees will be considerably contracted, if appropriate.

The specific measure may effect both current compensation and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

The Management Company will ensure that the variable remuneration will not be paid through vehicles or methods that facilitate the avoidance of the requirements.

4.5.4 ESG

Environmental, Social and Governance (ESG) factors are receiving considerable public attention. Integrating these aspects into compensation systems is an important step for credibly driving the sustainability agenda of the Management Company.

ESG criteria such as the reduction of carbon emissions or customer satisfaction cannot and should not be maximized per se and as a consequence should rather be integrated as boundary conditions that need to be fulfilled in order to receive any variable compensation (so-called “thresholds conditions”). In other words, non-achievement might lead to a downward adjustment of variable pay.

4.6 Application of remuneration rules to delegates

Under AIFMD, ESMA required, in its remuneration guidelines, the application of the AIFMD remuneration rules to portfolio management delegates of an AIFM, including delegates established outside the EEA. Although UCITS V did not include this principle within its provisions, a recital to the Directive mentions the possibility of this being required, referring to remuneration rules applying to third parties that “take investment decisions that affect the risk profile of the UCITS”, with such rules applying “in a proportionate manner”.

In its guidelines, ESMA has taken the same approach on this point as it did under AIFMD, and requires the application of remuneration rules to portfolio management delegates of UCITS management companies, by either of the following means:

- satisfying the condition that the delegate is “subject to regulatory requirements on remuneration that are equally as effective as those applicable under these guidelines”; or
- the UCITS management company including a provision in the contract appointing the delegate, which states that the delegate must follow, to an appropriate degree, UCITS remuneration rules.

4.7 Remuneration disclosures

UCITS V includes the following requirements for remuneration disclosure.

4.7.1 Prospectus⁷

The prospectus must include:

- details of the remuneration policy, including a description of how remuneration and benefits are calculated, the persons responsible for awarding the remuneration and benefits, including the composition of any remuneration committee; and
- a statement that the details of the remuneration policy (outlined above) are available on a website and by a paper copy.

The key investor information document must also contain a statement that the details of the up-to-date remuneration policy is available on a website and on request.

4.7.2 Annual report⁸

The fund's annual report must include:

- the total amount of remuneration during the fund's financial year, split into fixed and variable remuneration, paid by the management company to its staff, the number of beneficiaries, and any amount paid by the UCITS itself;
- the aggregate amount of remuneration broken down by categories of employees or other members of staff that are subject to the remuneration rules. This appears to require a break-down of remuneration by each category of staff, including senior management, other risk takers and control functions;
- a description of how the remuneration and benefits have been calculated;
- the outcome of the annual review of the remuneration policy; and
- details of any material changes to the policy.

Alpina Fund Management S.A. reports the total amount of remuneration during the fund's financial year, the ratio between fixed and variable remuneration, paid by the Management Company to its staff, the number of beneficiaries, and any amount paid by the UCITS itself.

As the number of employees on the payroll is low and in order to protect the privacy rights of these persons, Alpina Fund Management S.A. will not break down the aggregate amount of remuneration by categories of employees or other members of staff that are subject to the remuneration rules. Falcon Fund Management (Luxembourg) S.A. believes that it is not appropriate to disclose the remuneration of individuals, being otherwise the consequence.

Alpina Fund Management S.A. provides the investor with a description of how the remuneration and benefits have been calculated, the outcome of the annual review of the remuneration policy and details of any material changes to the policy.

The remuneration-related disclosure requirements under Article 69(3)(a) of the UCITS Directive also apply to the staff of the delegate of a management company to whom investment management functions (including risk management) have been delegated. The disclosure may be provided on an aggregate basis i.e. by means of a total amount for all the delegates of the Management Company in relation to the relevant UCITS.

⁷ Article 69(1).

⁸ Article 69(3).

The Management Company will communicate to investors the names of the Delegates, their functions and the remuneration paid to these Delegates.

4.8 Supplementary provisions

The Management Company will ensure that:

- payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure;
- guaranteed variable remuneration is exceptional, occurs only in the context of hiring new staff and is limited to the first year;
- staff is required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;
- any retention bonus agreement, a form of variable remuneration, is appropriately designed, if such an agreement is agreed in individual cases.

5 Supplementary information

For the time being, the Management Company does not grant the following types of remuneration (*non-exhaustive enumeration*):

- employer-funded pension,
- company car,
- lunch pass (chèque repas),
- contributions to loans (e.g. mortgage loan),
- subsidization of contracts (e.g. public transport, gym membership).

However, the Management Company may pay employees parking fees at cost price.